Postal Regulatory Commission
Submitted 5/6/2022 11:25:14 AM
Filing ID: 121680
Accepted 5/6/2022

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

MARKET-DOMINANT PRICE CHANGE	Docket No. R2022-1

COMMENTS OF THE
NATIONAL POSTAL POLICY COUNCIL
(May 6, 2022)

The National Postal Policy Council ("NPPC")[1] hereby respectfully submits these comments on the Postal Service's notice of market-dominant price adjustments.[2] In these comments, NPPC will address:

- the shockingly large rate increases imposed (within only 10 months) on mailers subject to the Postal Service's legal monopoly, including a compounded increase of 14.81 percent for Presort Letters and cards;
- the lack of any explanation as to the purpose of the increases;
- the pricing of workshare discounts; and
- the pricing of First-Class Flats.

At the outset, NPPC notices that despite a history of steadily declining volumes of market-dominant products, the Postal Service is insisting on imposing maximum rate

[1] The National Postal Policy Council is an association of large business users of letter mail, primarily First-Class Mail using the Automation rate category, with member companies from the telecommunications, banking and financial services, insurance, and mail services industries. NPPC members account for a large majority of the Presort Letters and Card (hereinafter "Presort Mail") in the postal system and work closely with the Postal Service on worksharing and many other efforts to make their mail as efficient and low cost as possible.

[2] *United States Postal Service Notice of Market-Dominant Price Change*, Docket No. R2022-1 (April 6, 2022) ("*USPS Notice*"). The Commission issued public notice in Order No. 6146. *Notice and Order on Price Adjustments and Classification Changes for Market Dominant Products*, Docket No. R2022-1 (April 7, 2022), 87 *Fed. Reg.* 21930 (April 13, 2022).

increases on mailers subject to the postal monopoly. The new rates will result in compounded increases of nearly 14 percent in only 11 months for mail classes, such as First-Class Mail, that cover their costs. These come while the Service has accumulated nearly $25 billion in cash on its balance sheet[3] and benefits enormously from recent legislation that erased $57 billion in current liabilities and a similar amount of future liabilities for an improvement of well over $100 billion in total.

The statute continues to define the Postal Service as "a basic and fundamental service provided to the people by the Government of the United States." 39 U.S.C. §101(a). However, in light of the Postal Service's greatly improved financial condition, its *Notice* too aggressively focuses on enhancing the bottom line, in a pricing environment with monopoly power, rather than on the provision of a national service provided to the people.

Since the issuance of Order No. 5763 in November 2020, in which the Commission granted the Postal Service additional rate authorities, mailers have seen:

- The Postal Service reduce service standards for First-Class Mail, some Periodicals, and market-dominant package products;
- The Postal Service accumulate cash on hand approaching $25 billion – (enough to fund its vast operations for a 1/3 of a year even if every mailer were to stop mailing immediately);
- Congress repeal the retiree health benefits prefunding requirement, instantly erasing the nearly $57 billion liability from its balance sheet that was the primary basis upon which the Commission concluded that the Postal Service faced a long-term financial problem; and

[3] As of March 31, the Postal Service had more than $24 billion in cash. *Monthly Statement of the Public Debt of the United States* (March 31, 2022); *United State Postal Service Form 10-Q* at 4 (May 5, 2022).

- The same legislation also eliminate future retiree health benefit prefunding obligations, which in 2022 alone reduces the Service's obligations by nearly a billion dollars and further improves its long-term financial situation.[4]

Why, despite these changes, increases of the magnitude in the *Notice* are necessary or appropriate is unexplained. Certainly nothing in the *Notice* even begins to address the need or to reflect the impact on finances from the Postal Service Reform Act.[5] NPPC presumes that the Postal Service will assert that it is not out of the woods financially, so the Governors will continue to seek the limit of what the law permits irrespective of overall major financial improvement and huge pressure on its customer base.

NPPC fears that the consequence of that attitude and these increases will be to reduce still further the value, and thus the appeal, of the mail as a means of business communication. And in the case of First-Class Presort and Automation mail, NPPC fears that the damage these increases cause to mailer faith in the Postal Service is significant and will require considerable effort on the part of the Service to repair.

I. THE NOTICED RATES FOR FIRST-CLASS MAIL SHOW THAT THE POSTAL SERVICE FACES NO EFFECTIVE CONSTRAINT ON ITS ABILITY TO RAISE RATES FOR ITS MONOPOLY SERVICES

In First-Class Mail, the Postal Service proposes to raise rates, effective July 10, 2022, by a class average of 6.506 percent. That will come on the heels of the 6.814 percent increase last August 29, 2021, and a CPI increase in January 2021, that

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4 *See Letter to Hon. Erica A. Barker from Nabeel R. Cheema*, at 1 (Mar. 14, 2022).

5 Other than the reduction in rate authority from repeal of retiree health prefunding. *Notice* at 3.

collectively amount to a compounded increase for First-Class Mail of 17.226 percent in 18 months. Of that, 13.763 percent will have occurred in barely ten months.

At the domestic product level, the increases since only last August are as follows:

Product	August 2021 Increase	July 2022 Increase	Compounded Increase
Single Piece Letters & Cards	5.00%	5.26%	10.51%
Presort Letters & Cards	7.44%	6.86%	14.81%
Flats	10.32%	9.20%	20.47%

Looking solely at letter rate categories that are of primary interest of NPPC members, the increases since August 2021 are:

Product	August 2021 Increase	July 2022 Increase	Compounded Increase
Single Piece stamped	5.5%	3.4%	9.1%
Single Piece Metered	3.9%	7.5%	11.7%
MAADC Automation	7.8%	6.2%	14.5%
AADC Automation	7.7%	6.5%	14.7%
5-Digit Automation	7.0%	6.8%	14.3%

In exchange for these skyrocketing rates, First-Class and other market-dominant mailers are receiving deliberately slowed service (*see* Docket No. N2021-1) and continue to suffer, as they have for seven years, from service that failed – for every single First-Class Mail product—to meet the Postal Service’s self-imposed targets, much less the published standards.[6] And while the maximum-permitted rate increases take place promptly, the Postal Service continues to be unable to offer a clear answer to the Commission's request that it state definitively in what future year it might even try to set "targets" – instead of actually achieving – the newly reduced service standards described in Docket No. N2021-1.[7]

About half of these compounded increases result from the Postal Service's use of the additional rate authorities authorized by the Commission in Order No. 5763.[8] Order No. 5763 stated (at 364) that the new rate authorities would enable the Postal Service to make "prudent pricing and operational decisions." But the new pricing authorities substantially insulate the Postal Service from the financial consequences of declining volume, thus allowing the Service to present business mailers with rate increases on a scale of those under the Postal Reorganization Act's cost-of-service approach (but which typically occurred three years apart – not 10 months) and together with the unprecedented slower service. That is not a recipe for "enhancing the value of mail." Even while subject to a statutory monopoly which forces them to use the Postal Service if they are to communicate with their customers and suppliers by hard copy, business mailers surely will accelerate efforts to leave the system.

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[6] *See* Postal Regulatory Commission, *Annual Compliance Determination Fiscal Year 2021*, at 140 & Figure V-12; (Mar. 29, 2022) ("*ACD FY21*").

[7] *Response of the United States Postal Service to Question 1 of Chairman's Information Request No. 18*, Docket No. ACR2021 (Feb. 22, 2022).

[8] NPPC continues to challenge the Commission's legal authority to establish the density and retirement authorities. *National Postal Policy Council v. Postal Regulatory Commission*, 17 F.4th 1184 (D.C. Cir. 2021), *petition for writ of certiorari pending* (U.S. No. 21-1124 filed Feb. 10, 2022).

The current system offers no check on whether increases are "judicious" [9] or – as Objectives 1 and 8 require -- whether they maximize incentives to reduce costs or increase efficiency or are "reasonable" because the current regulations presume, rather circularly, that any proposed rates that fit within the letter of the regulations are thereby consistent with the statutory objectives and factors. *See* Order No. 5763 at 258.[10] It is becoming painfully evident that expectations regarding the Postal Service's use of the pricing authorities adopted in Docket No. RM2017-3 have proven unfounded. For example, Order No. 5763 accepted uncritically the Postal Service's assertion that it would be "attentive to not allowing rates to increase too sharply, notwithstanding its market power." Order No. 5763 at 314. Mailers also were assured that the additional rate authorities would increase the Postal Service's ability to exercise "business judgment to smooth out rate adjustments." *Id*. The Postal Service has not even tried to argue that two sharp rate increases of more than 6 percent, and around 14 percent (and in some cases 20 percent) compounded within 10 months, are "smoothed out," stable, or prudent.[11]

Order No. 5763 stated that "sufficient controls" would protect against the Service using its additional rate authorities to price aggressively in support of its "near-term

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9 *See United States Postal Service, FY 2021 Annual Report to Congress*, at 32 (summarizing Delivering for America Plan).

10 NPPC respectfully submits that this aspect of Order No. 5763 is simply contrary to the statute and the decision of the U.S. Court of Appeals in *Carlson v. Postal Regulatory Commission*, 938 F.3d 337 (D.C. Cir. 2019). Changing the regulatory review process does not eliminate the statutory requirement that rates comport with the objectives and factors.

11 Such maximum increases might be "predictable" in the cynical sense that one can expect a monopolist to use all of the pricing power available to it. However, NPPC submits that such is not what Congress meant when it enacted 39 U.S.C. §3622(b)(2).

interests but potentially threaten its longer-term interests." Order No. 5763 at 346 & n.446. Those "controls" included the Commission, Congress, GAO, the Postal Service's Office of the Inspector General, and the Governors. Notably, the list omitted any mention of the mailers who are expected to pay those "near-term rates" and whom the Commission exists in part to protect from monopolistic pricing. But mailers alone are asked to pay such rate increases – whether "judicious" or not -- and have seen little evidence that those "controls" have any constraining effect on postal rates.

Although the Commission announced its intention to review these new rules in five years (a process which, although not entirely clear, conceivably may not begin until November 2025), only time will tell whether enough First-Class letters will remain in the system for that review even to matter. Given the Postal Service's pricing actions, the Commission may well be planning on beginning its review after the barn door has largely closed and excessive rate increases have driven mailers permanently out of the mailstream.

II. THE NEED FOR THE MARKET-DOMINANT RATE INCREASES IS NOWHERE EXPLAINED

Although the Postal Service Governors have discretion as to both timing and the amount of rate changes, it would be helpful if they or the Postal Service were to explain how these sharp rate hikes fit into a coherent strategy of how pricing will be used to improve service and mailer satisfaction. But no such explanation has been presented. Instead of acting to moderate or postpone a second enormous rate increase within ten months, postal management has simply continued a long-standing Postal Service practice of using essentially all authority available for the categories over which it exercises a monopoly. What little explanation there is merely says that certain decisions are meant to encourage particular mailer preparation activities; there is no discussion of how pricing may encourage mailers to increase their use of the system.

NPPC recognizes that neither the Commission's regulations nor the statute requires the Postal Service to explain why it needs the money, or how the increases advance the policies, Objectives, and Factors of the law. Nor does the statute or the regulations require the Postal Service to explain what strategy it seeks to implement through prices. Nonetheless, both would be helpful in enabling mailers and the Commission to understand the rationales for the changes and help mailers, particularly business mailers that regularly must decide whether to make substantial investments in mailing equipment, software, and related services, understand the Postal Service's plans.[12] The Commission should consider requiring such an explanation.

A passing reference to the Delivering for America Plan – which has never been subjected to comprehensive independent scrutiny – explains nothing. *See USPS Notice* at 1. Why is nearly $25 billion cash on hand insufficient? How will the Postal Service use its enormous cash hoard (which of course grows daily as mail and packages enter the system continuously)? Evidently not for capital expenditures; its Integrated Financial Plan projects only $2.5 billion in capital cash outlays.[13] What

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[12] NPPC is well aware that monopolists, whether statutory or not, rarely willingly raise rates by less than permitted. There are always needs that enable the characterization of even the maximum sums allowed as insufficient. In the case of the Postal Service, the purpose of checks outside of postal management is to provide a means for evaluating such claims critically.

[13] United States Postal Service, *Fiscal Year 2022 Integrated Financial Plan*, at 7 (Nov. 18, 2021). The Plan also projects $8.1 billion in capital commitments but does not indicate when those sums might actually be spent.

urgent spending initiatives require the full amount of increase?[14] And while new Rule 3030.55(f) will require the Postal Service to report on cost reduction initiatives, which might include capital investments, that occurs in the annual compliance review process, not rate adjustment filings, and the filing requirement is limited in scope. *See* 39 C.F.R. §3030.55.

III. THE PROPOSED WORKSHARE DISCOUNTS AGAIN SHOW THE NEED TO TIGHTEN THE DISCOUNT REGULATIONS TO ACHIEVE EFFICIENCY

The *Notice* is the second time that the Postal Service has adjusted rates since the Commission adopted rules designed to promote efficient pricing of workshare discounts. The *Notice* contains some encouraging discount prices, but the Postal Service's approach to discounts continues to suggest that stronger rules are necessary to promote true pricing efficiency.

In Docket No. RM2017-3, the Commission held, based on years of history, that the Postal Service had not increased pricing efficiency since enactment of the PAEA contrary to the Objective 1 goal of "maximiz[ing] the incentives to reduce cost and increase efficiency." Order No. 4257 at 146 (Dec. 1, 2017). The Commission further found, consistent with decades of postal pricing decisions, that the Objective 1 "goal of pricing efficiency could be achieved when 'prices adhere as closely as practicable" to Efficient Component Pricing ("ECP"). *See* Order No. 4258 at 87 (Dec. 1, 2017) (Notice of Proposed Rulemaking). That means workshare discounts should be set equal to the

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[14] Furthermore, the DFAP focuses on internal postal operations. It does not address the future of mailer preparation activities or how the Service intends to work with mailers in partnership to advance the interests of mailers and the system in the years to come.

Postal Service's avoided costs, thus passing through 100 percent of the avoided costs in order to establish optimal pricing signals for mailers. The Commission correctly noted that efficient pricing also "promotes fair competition, because it allows mailers to determine if they can prepare the mail at a lower cost than paying the Postal Service to do the work." Order No. 4257 at 131 (Dec. 1, 2017). By so doing, efficient pricing of worksharing is most likely to minimize the cost for the postal system as a whole. However, in Order No. 4257 (at 136), the Commission found that "the Postal Service generally did not adhere to ECP when setting prices."

To address this failure, and consistent with Objectives 1 and 8, the Commission adopted regulations that generally require workshare discount passthroughs to be set at 100 percent of the costs avoided, although the Commission also established a number of exceptions that allow passthroughs as low as 85 percent and still lower in particular circumstances. *See* 39 C.F.R. §3030.280 *et seq*. And as NPPC pointed out in its comments in the FY 2021 annual compliance review proceeding, in reality the actual passthroughs are likely smaller than indicated in the *Notice* because they are based on outdated costs due to the inevitable mismatch between prospective rates and the prior year costs upon which they are based. *See Comments of the National Postal Policy Council*, Docket No. ACR2021, at 7-9 (Jan. 31, 2022).[15]

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[15] The Commission acknowledged this mismatch between forward-looking prices and backward-looking stale costs in the FY 2021 annual compliance review but focused therein on assessing compliance with the workshare discount rules, not with the adequacy of those rules to promote efficiency. *ACD FY21* at 16-17. In particular, it did not address NPPC's primary point, which is that the nominal passthroughs upon which discounts are based in rate adjustment dockets generally understate the costs avoided. Accordingly, to promote pricing efficiency, the Commission's rules should be modified to require proposed discounts, such as those in this case, to be materially closer to 100 percent.

With this background, turn now to the First-Class Mail workshare discount passthroughs presented in the *Notice*:

	Current Passthrough %	Proposed Passthrough %
Mixed AADC Nonauto Letters	56.25	68.75
AADC Nonauto Mach Letters	91.67	91.67
Mixed AADC Auto Letters	60.81	74.32
AADC Auto Letters	96.00	96.00
5-Digit Letters	83.33	85.71
Mixed AADC Auto Cards	69.23	100.00
AADC Auto Cards	72.73	100.00
5-Digit Auto Cards	66.67	100.00
Mixed ADC Auto Flats	81.82	85.61
ADC Auto Flats	76.81	85.51
5-Digit Auto Flats	84.54	100.00

These rates illustrate both good and less good aspects of the workshare discount regulations adopted in Order No. 5763. As for the good, NPPC notes all of the First-Class Mail discounts comply with the letter of the new regulations. In particular, the Postal Service is increasing the passthroughs for the three postcard discounts to 100 percent by increasing the monetary value of the discounts to match the avoided costs. The Service is also increasing the First-Class Flats 5-Digit passthrough to 100 percent from its current 84.54 percent. These are commendable improvements, even if the volumes associated with those products constitute a comparatively small portion of the First-Class mailstream.

The story in First-Class Presort Letters is more mixed. The discount for 5-Digit letters increases slightly, by $0.001. That appears to be a consequence of the new rule, as retaining the current discount would have left the passthrough at 83.33 percent, below the range permitted by rule 3030.284(e). However, the new passthrough, only 85.71 percent, is the minimum possible under the rules. And while NPPC members appreciate the slightly increased discount, such a small improvement hardly ameliorates the overall 6.8 percent increase in the actual 5-Digit rate.

The Mixed AADC Automation discount presents another mixed story. The Postal Service is increasing that discount from $0.045 to $0.055. However, much more was possible, as the passthrough increases from the current miserly 60.81 percent to only 74.32 percent. That is allowed by the Rule 3030.284(c), as the dollar value of the discount increases by at least 20 percent. Nonetheless, the discount will remain substantially inefficient, and the overall 6.2 percent actual rate increase for Mixed AADC Automation letters will drive away more mail than the discount will attract.

The Postal Service asserts that it adopted "a balanced approach" in pricing First-Class Mail passthroughs. *Notice* at 9. But it offers little explanation as to what was "balanced" and how. The sole example it provides is in defense of the 68.8 percent passthrough for the Nonautomation Machinable Mixed AADC Letter rate, which it says avoids the potential anomaly of the Nonautomation Machinable AADC Letters having a lower price than Automation Machinable Letters. *Notice* at 10. That it does, but there were many ways to accomplish that rate design objective and there is no explanation why the Service chose this one. Indeed, if one compares the below average increase in the Single Piece one-ounce rate to the excessive increases in Presort rates, it is difficult to see any "balance."

If the Postal Service were serious about ameliorating these increases and encouraging more efficient preparation and entry, it could have done far more. For instance:

- The Metered Mail rate (which is not a workshare discount) could have received a smaller increase to better encourage the use of more efficient meters;
- The Nonautomation Mixed AADC Machinable discount could have been larger than the proposed 68.75 percent passthrough;
- The Mixed AADC Automation discount passthrough could easily have been increased beyond the 74.32%; and
- The 5-Digit Automation discount could have been set at $0.042, a 100 percent passthrough.

The minimal increase in the Automation 5-Digit workshare discount passthrough merits further discussion. That rate category is the single most important rate category in First-Class Mail. It accounts for nearly ¾ of the Automation volume (*United States Postal Service Annual Compliance Report FY2021*, at 8 & Table 2) and provides the largest volume and the greatest revenue of any First-Class Mail rate category. *See USPS CAP-CALC-FCM-R2022-1*. It is also the most profitable.

Given the central importance of the Automation 5-Digit rate, one might expect that efficient rate design would use it as the starting point and strive to set it at the most efficient level possible.[16] However, there is no indication that the 5-Digit passthrough is

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16 *Accord* Pitney Bowes Comments, at 2, Docket No. ACR2021 (Jan. 31, 2022) (stating that the First-Class Mail Automation 5-Digit Letters workshare discount should be set equal to avoided costs given its importance to "commercial mailers who produce the most profitable and price sensitive First-Class Mail letters). *Pitney Bowes Comments* at 2. Pitney Bowes also urged the Postal Service to set the passthrough for USPS Marketing Mail Automation 5-Digit Letters at 100 percent. *Id.*

the result of anything other than a plug value to comply with both the passthrough requirements and the revenue ceiling. Although the Service's apparent approach is not a violation of the Commission's rules, the inefficiently set discount and above-average rate increase (6.808 percent) illustrates that the rules do not achieve pricing efficiency.

In First-Class Mail Automation Flats, NPPC is pleased that the *Notice* sets the 5-Digit passthrough at 100 percent. But the Postal Service set the Mixed ADC Automation and ADC Automation Flats discounts barely above 85 percent. This is particular problematic because First-Class Flats were (slightly) underwater and the Service has consistently failed to control flats costs. The Service missed an opportunity to drive more costs out of flats by failing to set these two discounts much closer to 100 percent. Perhaps the Commission should require 100% passthroughs for workshare discounts in underwater products in an effort to promote efficient operations.

In sum, NPPC is encouraged that the Postal Service has moved some discount passthroughs to 100 percent. However, as noted previously many of the 100 percent passthroughs are for relatively smaller volume rate categories. Important passthroughs, particularly the most important 5-Digit Automation Letter category and the Mixed AADC Auto Letter rate (from which all other Automation Letter discounts flow), continue to hover at or below the 85 percent level.

And even these discounts will likely prove less economically efficient than they appear in the *Notice*, for the reasons NPPC explained in its comments on the FY2021 ACR. The proposed discounts are based on FY2021 costs, and thus are already more than 7 months old, and the costs avoided in the current year will almost certainly be higher than in FY2021 because cost avoidances generally increase year over year reflecting cost increases from inflation, escalating personnel costs, and more. As NPPC explained in the ACD comments, to promote economically efficient pricing and to drive costs out of the system, discounts must be set much closer to 100 percent. Given the inevitable understating of the true costs avoided, NPPC again urges the Commission, at a minimum, to require a tighter passthrough range. In particular, the 85 percent lower boundary must be revised upwards.

When the Commission adopted the current workshare discount rules, it stated that it would consider revisiting the rules if over time it appeared that the Postal Service "is attempting to use the 85 percent passthrough floor as a 'safe harbor' for below avoided-costs workshare discounts and is not taking steps to move those discounts towards ECP." Order No. 5763, at 212-213. The Commission used almost identical language in its recent Annual Compliance Determination for FY2021. *Annual Compliance Determination FY2021*, at 24 (Mar. 29, 2022). The treatment of the 5-Digit and Mixed AADC Automation Letter discounts warrants the Commission's taking a closer look at the 85 percent lower bound.[17]

Two additional issues are raised by the *Notice*'s proposed discounts. First, the Commission should reconsider how the workshare discount rules actually implement its

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17 For another example, the Commission might also carefully review the Periodicals Outside County Machinable Nonautomation 3-Digit/SCF Flats discount. At the end of FY 2021, that discount ($0.053) passed through 101.9 percent of the costs avoided ($0.052). *See ACD FY21* at 19. The Commission instructed the Service to bring that discount into compliance. The Postal Service easily could have slightly reduced that passthrough by $0.001 to achieve a 100 percent passthrough but instead chose to shrink the discount by $0.008, resulting in a passthrough of 86.5 percent. *Notice* at 21, Table 14. That was neither necessary nor required by the rules and suggests that the Service preferred to set that discount at a safe harbor just above 85 percent instead of setting it at a fully efficient level. Note that many other Periodicals discounts are set only slightly above the 85 percent bound.

"do no harm" policy. *See* Order No. 5763 at 214. In that Order, the Commission characterized Rule 3030.282 as preventing the Postal Service from proposing a rate adjustment to a workshare discount that would "push the related passthrough further from ECP." *Id*., at 215, n.281. But a passthrough marginally above 100 percent causes less harm than a passthrough that is significantly below 100 percent. This is a particular risk when the Postal Service drops the passthrough to near 85 percent, using that as a safe harbor floor. If a passthrough exceeds 100 percent by only a small amount, not only is just a small amount of revenue at risk, but the actual avoided costs easily may have risen enough (since the close of the Fiscal Year in which they were calculated) to close the gap. In contrast, a passthrough that is significantly less than 100 percent not only fails to set efficient pricing signals, but also harms private mail services providers by sending flawed signals to mailers.

Second, in USPS Marketing Mail the Postal Service is establishing new discounts for High Density Plus and Saturation 5-Digit (direct) containers, at passthroughs of 45.5 percent and 31.8 percent, respectively. NPPC commends the creation of these new discounts, but the Postal Service has undercut their potential effectiveness by passing through a trivial amount of avoided costs. With these starting points, the passthroughs likely will remain far below 100 percent for many years. A mailer will choose to use a workshare discount only if its additional costs to do so are less than the discount it will earn. There is no evidence that the Postal Service has any idea of mailers' costs when setting such discounts. This is not a trivial point, because the Service seems to want mailers to incur—through additional preparation steps--much of the effort needed to reduce the Postal Service's own inefficiencies.

In each case of these discounts, the Postal Service's proposal is permitted by the letter of the Commission's rules. However, the problem is that the rule is proving to be inadequate. NPPC urges the Commission to revise its workshare discount regulations to better ensure that workshare prices are set at more economically efficient levels.

IV. THE PRICE INCREASES FOR FIRST-CLASS FLATS ARE UNNECESSARILY EXCESSIVE AND COULD ELIMINATE FLATS AS A VIABLE MAILING OPTION

The *Notice* proposes to increase First-Class Flats rates by an average of 9.204 percent. This increase comes on the heels of a 10.318 percent increase in August 2021, for a compounded increase of 20.472 percent in little more than 10 months. NPPC submits that such large increases were not necessary to make First-Class Flats compensatory, are an unfortunate consequence of the timing of the annual compliance review, and are unreasonable on the face contrary to Objective 8 and Factor 3.

First-Class Mail flats volume fell by 2 percent in FY 2021, while unit attributable costs rose by 3.5 percent. Neither the decline in volume nor the increase in unit attributable costs for First-Class Flats was an outlier among flats categories. Indeed, First-Class Flats volumes fell by less than most categories and their costs rose by less than inflation. Although First-Class Flats cost coverage has declined in recent years, that appears more related to the Postal Service's chronic inability to handle flats and control flats costs than anything peculiar to First-Class Flats.

Nevertheless, the Postal Service's chronic issues with flats costs have caused the cost coverage of First-Class Flats to decline in recent years, and despite these rather normal changes in FY 2021 First-Class Flats had a cost coverage of 99 percent. *ACD FY2021* at 229, Table VI-1. The negative contribution from First-Class Mail flats was only $17 million, a loss that pales in comparison to the losses from several other flats rates.

It is quite possible that First-Class Flats rates are compensatory today even without *any* rate increases, much less the extraordinary ones in the *Notice*. The proximity of the August 2021 rate increase to the September 30, 2021, end of Fiscal Year 2021 meant that the higher rates generated revenue for barely one month. It is conceivable that, had the current rates been in effect for even a month or two longer, First-Class Flats likely would have covered their attributable costs and the extra two percent penalty would not have been in play. Nevertheless, the Commission chose to apply new Rule 3030.221 rigidly and directed the Postal Service to raise First-Class Flats rates by more than two percent above the class average. *ACD* at App. A, page 3. The Service has done so.

NPPC is encouraged that the Postal Service, at least, chose not to increase the price of 5-Digit flats. Holding that rate steady encourages mailers to prepare flats to the 5-Digit level if they can do so, and that can help to reduce costs. And several other Automation Flats rates receive comparatively smaller increase. But the other increases across First-Class Flats rates threaten to drive many flats from the postal system.

Perhaps the compounded 20 percent increases will cause First-Class Mail flats to tick above attributable costs. But nothing in recent postal history gives reason for confidence that ever-higher rates will cure the problem. NPPC is unaware of any product in the PAEA era in which rate increases have successfully transformed an underwater product to a compensatory product. More than a decade of failure in the case of USPS Marketing Mail Flats and Periodicals suggests that excessive rate increases is not a successful strategy.

And even if higher rates did push a product into compensatory levels, such a "success" would be pyrrhic at best, because it likely would come at the cost of a substantial loss of volume as flats become an unaffordable option for First-Class mailers. The loss of volumes from the rate hikes will prove to be a longer run problem for the Service, forcing rates to rise continuously simply to keep pace.

NPPC suggests that the Commission and Postal Service should give serious consideration to a different strategy, one focused on increasing flats volumes. That would reduce the per-unit costs insofar as fixed costs would be spread among more pieces and would also have the salutary effects of increasing mailer engagement with the postal system and increasing volume. That would require reconsideration of Rule 3030.221, particularly in the case of mail products that are barely below attributable costs, and a Postal Service approach to pricing that encourages, not discourages, mail.

V. CONCLUSION

The National Postal Policy Council urges the Commission to consider these comments as it evaluates the Postal Service's *Notice*, and to consider initiating a rulemaking to revise Rules 3030.221 and 3030.284(e) in a manner consistent with these comments.

Respectfully submitted,

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